LINN ENERGY – FINAL
FIRST QUARTER 2017 EARNINGS CALL SCRIPT
May 11th, 2017 – 10 a.m. CDT

Management Participants:

- Mark E. Ellis – President and Chief Executive Officer
- David B. Rottino – Executive Vice President and Chief Financial Officer
- Arden L. Walker, Jr. – Executive Vice President and Chief Operating Officer
- Thomas Belsha – Vice President – Investor Relations and Corporate Development

MANAGEMENT DISCUSSION

Toni Montegut:

Good morning. Welcome to LINN Energy's conference call to discuss its first quarter 2017 earnings. Today's call is being recorded. At this time, I will turn the call over to Thomas Belsha, LINN Energy's Vice President of Investor Relations and Corporate Development, for some opening remarks. Please go ahead.

Thomas Belsha:

Thank you for joining our first quarter 2017 earnings conference call. In a moment, I will introduce Mark Ellis, our President and Chief Executive Officer, but first I need to provide you with disclosure regarding forward-looking statements that will be made during this call. The statements describing our beliefs, goals, plans, strategies, expectations, projections, forecasts and assumptions are forward-looking statements. Please note that the Company's actual results may differ from those anticipated by such forward-looking statements for a variety of reasons, many of which are beyond our control. Additional information concerning certain risk factors relating to our business, prospects and results is available in the Company's filings with the SEC, including LINN's Form 10-Q for the quarter ended March 31, 2017, which we plan to file later this afternoon, and any other public filings and press releases.

Additionally, to the extent we discuss non-GAAP measures such as EBITDAX during the call, please see our earnings press release for the calculation of these measures and the GAAP reconciliations.

Additional information can be found on LINN Energy's website at www.linnenergy.com in the Investor section. I will now turn the call over to Mark Ellis, LINN's President and CEO.

Mark Ellis:

Introduction

Thanks Tom, and good morning. Joining us today from LINN are David Rottino, Executive Vice President and Chief Financial Officer, and Arden Walker, Executive Vice President and Chief Operating Officer.

It's been quite some time since we have had the opportunity to publicly address the investment community, so I am very pleased to be speaking with you today and I look forward to sharing our strong results from the first quarter.

Strategy

As highlighted in our release this morning, the Company reached several important milestones in the first quarter as we execute on a transformative business plan from an upstream MLP to a growth-oriented E&P company. We emerged from financial restructuring with a strong balance sheet and high quality assets that are highlighted by our top tier position in the SCOOP / STACK / Merge and a clear focus on maximizing shareholder value.

As announced last week, we entered into a definitive agreement to divest our Jonah and Pinedale assets for a contract price of $581.5 million. While not initially announced as a planned asset sale, this opportunistic transaction aligns with our overall strategy. We continue to market the previously announced non-core asset sales and there is significant interest in each of the packages.

Operations

On the operating front, our high quality assets continued to perform well during the first quarter. Production averaged approximately ~779 MMcfe/d, exceeding guidance and is flat compared to our year-end 2016 exit rate. This is especially significant in light of only spending $57 million of oil and natural gas capital in the quarter. Base optimization along with encouraging new well results in the Merge were the key drivers.

We have a tremendous resource in the Merge where we are focusing a large portion of our capital in 2017 and are currently operating two drilling rigs. We completed four ~10,000 ft. horizontal wells in the first quarter, two in the Woodford and two in the Mississippian. The two Woodford wells had average peak IP-30 rates of more than 1,100 BOE/d and over 50% total liquids. The two Mississippian wells had average peak IP-30 rates of more than 1,400 BOE/d and over 50% total liquids. These results support our plan to run two rigs through the end of the year.

We continue to add to our existing acreage position which allows us to drill longer laterals or increase working interest in our existing units. In the first quarter, we acquired ~4,000 additional acres, increasing our acreage position to ~53,000 net acres in the Merge. We have allocated capital for additional lease acquisitions in 2017, which will continue to be used opportunistically throughout the year.

Shifting to our midstream business, our concentrated acreage position in the Merge, its strategic location relative to existing infrastructure and our recent success in this play underpin our very valuable midstream investment opportunity. Positive production results in this area continue to increase demand for our Chisholm Trail midstream business which has become a key focus for our organization. The refrigeration facility is currently processing ~40 MMcf/d and construction has been approved for a cryogenic plant with a design capacity of 250 MMcf/d. The Company has signed agreements dedicating its Merge acreage to Chisholm Trail for gathering and processing. We estimate that a midstream business of this type at full capacity could generate annual EBITDAX between $100 million and $125 million.

In total, including midstream, the Merge will account for more than $230 million of our total $413 million capital program. We exited 2016 with horizontal net production of 6,700 BOE/d and by the end of the first quarter this has increased to 8,000 BOE/d. We forecast to exit 2017 with a production rate of approximately 16,700 BOE/d from the Merge horizontal program.

In addition to our core Merge acreage, we have a significant position in the NW STACK where we continue to see increased industry activity. There were 43 horizontal well permits in the first quarter of 2017 compared to 18 in the first quarter of 2016 and there are currently 17 rigs running in the area. We have participated in non-operated horizontal wells and continue to closely monitor offset activity. As this play matures, we believe our technical and operational experience in the Merge will translate extremely well to a horizontal development program in the NW STACK. A large part of our acreage is located in Major and Blaine Counties, which is where the bulk of the activity is concentrated. Due to our consolidated and majority operated acreage position in these two counties, we believe the value of this position will significantly increase as offset results de-risk our acreage. Additionally, our acreage position is held-by-production, affording us the option to wait for the most strategic time to accelerate our investment in this area.

We also hold substantial acreage positions with recent offset horizontal activity in the Rockies, Mid-Continent, East Texas and North Louisiana. In 2017, we plan to test horizontal potential in each of these areas. In the first quarter, we picked up a rig in North Louisiana and are currently drilling a Lower Red horizontal test on our Ruston acreage.

We had a solid first quarter and I am very pleased with our position as we continue to work closely with our new board to transition as an organization. We are fortunate to have such a strong asset base that provides optionality as we continue to evaluate strategic alternatives. Our operational success throughout the restructuring process and now post-emergence is certainly a testament to the hard work and dedication of our employees.

I will now turn the call over to David for his financial update.

David Rottino

Financial Results

Thanks, Mark. On February 28th, we emerged from bankruptcy, therefore our first quarter financial statements reflect the impact of fresh start accounting. As you will notice, the first quarter financial statements have been bifurcated into predecessor or pre-emergence results and successor or post-emergence results and our balance sheet was adjusted to fair value as of the emergence date.

During the first quarter of 2017, LINN's total successor and predecessor revenues were approximately $393 million compared to $347 million in the first quarter of 2016. The higher revenues were driven primarily by higher commodity prices.

On the cost side, total successor and predecessor expenses for the first quarter of 2017 were approximately $312 million, which was down from approximately $474 million in the first quarter of 2016. The reduction was primarily driven by lower non-cash impairment charges and DD&A incurred in 2017. In addition, LOE and transportation have been reduced by ~9% and ~5% in the first quarter of 2017 compared to the first quarter of 2016. LOE and transportation costs are lower due to our continued focus on cost reduction initiatives and renegotiated contracts throughout the restructuring process. Excluding share based compensation, G&A has decreased by approximately $47 million in the first quarter of 2017 compared to the first quarter of 2016. This is primarily due to $17 million of restructuring costs in the first quarter of 2016, lower headcount and other G&A expenses. As outlined in our guidance, we are targeting even further reductions in our cost structure throughout 2017 to position ourselves to maximize returns throughout our portfolio.

We reported successor and predecessor net income for the first quarter of 2017 of approximately $2.4 billion, which includes reorganization items associated with bankruptcy of approximately $2.3 billion, compared to a first quarter loss in 2016 of approximately $1.3 billion, which included a loss on discontinued operations of $1.1 billion related to Berry Petroleum.

Balance Sheet, Liquidity, and Jonah Asset Sale

Moving on to the balance sheet and liquidity, as mentioned earlier we have applied fresh start accounting and revalued our balance sheet as of the emergence date. As of March 31st our total assets were approximately $3.6 billion and total liabilities were approximately $1.6 billion which includes approximately $834 million of total debt.

We had $540 million drawn on a $1.4 billion revolving credit facility and a $294 million term loan outstanding. That leaves us with approximately $853 million of liquidity including $7 million of outstanding letters of credit at quarter end. Our annualized Q1 debt to EBITDAX was 1.6x.

Last week we announced the sale of our Jonah assets for a contract price of $581.5 million. We expect to receive net proceeds of $550-$560 million, net of normal closing adjustments for effective date to closing date cash flows and other closing costs. The transaction is expected to close at the end of May and the net proceeds will be used to further reduce outstanding borrowings under our credit facility and term loan. We do not expect any material cash tax impact from the sale.

The asset sale, while further reducing leverage and improving liquidity, will also allow us to more aggressively pursue higher return opportunities in our SCOOP / STACK / Merge acreage position and related midstream businesses. The Jonah and Pinedale assets are indicative of our large held-by-production acreage position in multiple basins that can benefit from applying new horizontal technology.

Asset Sales Packages

We are encouraged by the interest levels we are seeing for the previously announced non-core asset packages. The proceeds from these sales will give us tremendous flexibility to further pay down any remaining debt and more importantly further accelerate capital in our higher return areas and pursue other strategic alternatives.

Guidance

Looking ahead, we have provided updated guidance for the second quarter and full year 2017. In the second quarter, we estimate we will generate adjusted EBITDAX of approximately $116 million. Reducing adjusted EBITDAX by expected interest of approximately $13 million and capital of $88 million, we expect to live with-in cash flow from operating activities including ongoing reorganization costs.

For the full year, we estimate we will generate adjusted EBITDAX of approximately $496 million. That is a little higher than our previous guidance and is primarily driven by reductions in G&A expenses as a result of lower headcount. After projected interest payments of $60 million and total capex of $413 million, we expect to generate free cash flow before transaction and reorganization costs. Reorganization costs are expected to continue for the remaining three quarters of the year with estimated remaining spend of approximately $20 million.

Our guidance assumes we continue to own and operate Jonah and Pinedale and the other marketed assets for 2017. We will provide updated guidance in future quarters as the transactions close.

Hedging Update

Moving to our hedge book, in March we added 21 million-a-day of 2018 & 2019 gas swaps and in April we added 1,500 barrels per day of 2018 oil swaps. We will continue to monitor the market and add hedges as we feel appropriate to protect the current year capital program and provide support for our credit facility borrowing base.

For natural gas, we have swap contracts covering 370 million-a-day at an average price of $3.17 per MMBtu for 2017 production. For 2018, we have swap contracts covering 131 million-a-day at an average price of $3.01 per MMBtu. For 2019, we have swap contracts covering 31 million-a-day at an average price of $2.97 per MMBtu.

For oil, we have swap contracts covering 12,000 barrels per day for 2017 at an average price of $52.13 per barrel. For 2018, we have hedged 6,500 barrels per day of the Company's expected oil production – 5,000 barrels per day using collars at an average price ranging from $50.00-$55.50 per barrel and 1,500 barrels per day using swap contracts at an average price of $54.07 per barrel. For 2019, we have hedged 5,000 barrels per day of the Company's expected oil production using collars at an average price ranging from $50.00-$55.50 per barrel.

I will now turn the call over to Mark Ellis for closing remarks.

Mark Ellis:

Thanks, David.

Thank you all for joining us today. We appreciate your interest in LINN Energy. This concludes our prepared remarks for today and we look forward to seeing many of you at the upcoming UBS conference in late May and the RBC conference in early June. Thank you.

Operator:

Thank you for joining the first quarter 2017 LINN Energy conference call. This concludes our call.